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CLOTHING AND TEXTILES: SUPPLIES, PRICES, AND OUTLOOK FOR 1981[1]

By Joan C. Courtless[2]

Clothing expenditures and prices. According to preliminary figures for the first three quarters of 1980 (table 1), annual spending for clothing and shoes during that year is an estimated $473 per person. This amount exceeded 1979 spending by $23; however, 94 percent of this increase is attributed to higher prices, rather than to increased buying.

In an effort to gain customers and cut costs, many retailers maintained close control over inventories, cut back on the number of designer lines, promoted their own labels, and reduced the range or variety of available merchandise. Selling at a discount became more prevalent among retailers attempting to increase volume and net profits. In a nationwide survey of 1,250 men, the Daily News Record,[3] found that 43 percent of those interviewed bought some items of apparel from discount stores or factory outlets.

As measured by the Consumer Price Index (CPI), apparel and footwear prices in 1980 increased 6.5 percent over 1979. This increase was less than the 13.8-percent increase for the category "all items" during the same period (table 2). However, consumers did not make this distinction. In a nationwide survey[4] of 1,300 men, 80 percent thought that price increases for men's clothing have been equal to, or greater than, price increases on nonapparel items. Within the overall CPI category of clothing and footwear, men's shirts, infants' and toddlers' apparel, boys' and girls' shoes, and other apparel commodities increased relatively more than other clothing items between September 1979 and September 1980 (table 3).

Because Americans are beset by rising prices in all directions and are concerned about the extent of the recession, clothing purchases have been declining since the end of 1979.[5] Items purchased are chosen for quality and are expected to last for several years.

"Classic," "traditional," "value," and "investment" are adjectives used over and over to describe the clothing to be offered in 1981. Consumers will find stores featuring shetland wool crew- or v-neck sweaters, oxford cloth shirts, and blazers of madras or tartan plaids. Other plaids will be subtle or merged, including muted greens and blues. Fabrics with surface texture, including seersucker, piqué, fleece, velour, and terry, will be featured. Although the less expensive grades of velour and terry saturated the market during 1980, those of better quality and made mostly of cotton are expected to retain their popularity.

Since quilted outerwear of down, even though relatively expensive, is perceived by consumers to be synonymous with *warmth* and *value*, it is expected to sell well. Additionally, knitwear, which is warm and practical, will be fashionable with argyle, jacquard, and intarsia patterns.

Dress shirts for men will utilize oxford cloth, stripes, checks, small prints, and dobbies. Sports coats are expected to sell well because they are more versatile and less expensive than a suit and because their casualness projects a

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[1] Information in this paper is based on reports available during the period January through October 1980. Discussion of business trends is based on trade reports or news items in the Daily News Record, the Wall Street Journal, the Washington Post, the Washington Star, the Baltimore Sun, the New York Times, the Kiplinger Newsletter, *Business Week*, and *Knitting Times*. Other sources include: Board of Governors of the Federal Reserve System, 1980, *Federal Reserve Bulletin* 66(7). *Textile Organon* LI(9), September 1980. U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1980, *Cotton and Wool Situation*, CWS-22 and CWS-24. U.S. Department of Commerce, Bureau of the Census, 1980, Population estimates and projections, *Current Population Reports*, Series P-25, No. 891; Bureau of Economic Analysis, 1980, *Survey of Current Business* (table 11) 60(7):16; Industry and Trade Administration, 1980, *U.S. Industrial Outlook*. U.S. Department of Labor, Bureau of Labor Statistics, 1980, *News* (Consumer Price Index monthly reports).

[2] Family economist, Family Economics Research Group, Science and Education Administration.

[3] Daily News Record, R. H. Bruskin, May 21, 1980.

[4] Daily News Record, R. H. Bruskin, August 27, 1980.

[5] Board of Governors of the Federal Reserve System, 1980, *Federal Reserve Bulletin* 66(7).

Table 1. Annual expenditures on clothing and shoes[1]

Years	Per capita expenditures[2]		Percentage of expenditures for personal consumption		Aggregate expenditures	
	Constant dollars (1972)	Current dollars	Constant dollars (1972)	Current dollars	Billions of Constant dollars (1972)	Billions of current dollars
1960	203	148	8.1	8.2	36.6	26.7
1961	203	149	8.1	8.2	37.3	27.4
1962	209	154	8.1	8.1	38.9	28.7
1963	209	156	7.9	7.9	39.6	29.5
1964	222	166	8.1	8.0	42.6	31.9
1965	227	172	7.9	7.8	44.2	33.5
1966	239	186	8.0	7.9	46.9	36.6
1967	236	192	7.8	7.8	46.9	38.2
1968	242	208	7.7	7.8	48.6	41.8
1969	245	223	7.6	7.8	49.6	45.1
1970	240	227	7.4	7.5	49.2	46.6
1971	249	244	7.5	7.6	51.6	50.5
1972	264	264	7.5	7.5	55.1	55.1
1973	281	291	7.7	7.6	59.2	61.3
1974	279	308	7.8	7.3	59.1	65.3
1975	288	328	7.9	7.2	61.4	70.1
1976	298	352	7.8	6.9	64.2	75.7
1977	308	377	7.8	6.8	67.4	82.4
1978	333	417	8.1	6.8	72.7	91.2
1979	347	450	8.3	6.6	76.5	99.2
1980[3]	348	473	8.4	6.4	77.6	105.4

[1] Includes yard goods but excludes such services as cleaning and repairing clothing and shoes.

[2] Calculated by dividing aggregate expenditures for each year by population figures for July of each year.

[3] Preliminary figures—average of estimates for first 3 quarters of 1980 (seasonally adjusted quarterly totals at annual rates).

Sources: U.S. Department of Commerce, Bureau of the Census, 1980, Population estimates and projections, *Current Population Reports*, Series P-25, No. 891. U.S. Department of Commerce, Bureau of Economic Analysis, 1980, *Survey of Current Business* (table 11) 60(7):16, and personal communication with the Bureau of Economic Analysis.

more youthful image. The market for active sportswear, including swimwear and apparel for tennis, golf, and running, is expected to increase by over 20 percent in 1981.

Consumer shopping patterns appear to be in transition. For instance, retailers report that more shopping is being done on lunch hours in stores near places of work. This is one reason why some are predicting that the market share of stores in large regional malls will decline in the eighties, supplanted by those in neighborhood centers and downtown locations. Sales from mail catalogs are also expected to increase.

Outlook for Supplies of Raw Materials

Based on data for the first 9 months of 1980, U.S. mill use of total fibers during that year is estimated at 53.2 pounds per capita. This includes 13.9 pounds of cotton, 0.6 pound of wool, and 38.8 pounds of synthetic fibers. Per capita use in 1979 was 57.4 pounds, which included 14.0 pounds of cotton, 0.5 pound of wool, and 42.9 pounds of synthetic fibers.

Cotton. The 1980 domestic cotton crop is expected to be about 11.6 million bales, down 21 percent from last year's 14.6 million. Hot, dry weather reduced the average yield per acre

Table 2. Annual percentage change in selected indexes of consumer prices

Consumer Price Index	1976	1977	1978	1979	1980[1]
All items	+5.8	+6.5	+7.6	+11.5	+13.8
Apparel and upkeep	+3.7	+4.2	+3.4	+4.3	+6.5
Men's and boys' clothing	+3.5	+4.6	+2.3	+2.5	+4.2
Women's and girls' clothing	+2.8	+3.2	+1.8	+1.5	+2.0
Footwear	+4.0	+4.7	+4.0	+8.0	+8.2
Other apparel commodities[2]	—	+4.6	−0.1	+7.4	+17.4
Infants' and toddlers'[3]	—	—	—	+3.5	+9.6

[1] Preliminary estimates—average for first 3 quarters of 1980 compared with the average for first 3 quarters of 1979.
[2] Developed in 1976. Includes sewing materials and notions, jewelry, and luggage.
[3] Developed in 1978.

Source: U.S. Department of Labor, Bureau of Labor Statistics, 1980, *News*, Consumer Price Index (monthly issues); and personal communication with the Bureau of Labor Statistics.

below the record high 548 pounds in 1979. In 1980, U.S. raw cotton exports decreased about 32 percent because of reduced production in the United States and increased production in China, Pakistan, India, and other countries. However, exports are expected to be about 16 percent above the 1975-79 average. A comparison of 1979 and 1980 cotton production and export figures can be misleading because 1979 was an exceptional year during which the United States produced 22 percent of the world's cotton crop, while consuming only 10 percent. The surplus, available for export, accounted for 42 percent of the world trade in cotton.[6]

During the first 7 months of 1980, the price of cotton averaged 84 cents a pound, an increase of 16 cents over the same period in 1979. Because U.S. cotton supplies are expected to remain limited throughout most of 1981, prices will be especially sensitive to changes in the world cotton supply.

The leading "end-use" market for cotton fiber in 1979 was for men's and boys' trousers and shorts; the second largest market was in towels and washcloths. Apparel end-uses represented 53 percent; home furnishings, 33 percent; and industrial uses, 14 percent. During the first half of 1980, cotton used in denim fabric increased by 26 percent and increased in corduroy by 14 percent over the same period in 1979.

Wool. U.S. wool production for 1980 is estimated at slightly under the 1979 yield and 1 percent above the 1978 yield. Mill consumption of apparel wool through June was 12 percent above last year and 20 percent above the average for the years 1973-78. Imports of raw wool in the first 6 months of 1980 were 30 percent above the average of the last 2 years. The 1981 outlook is for a 4-percent increase in production and a 5-percent increase in mill consumption of apparel wool.[7]

Cashmere. The price of cashmere has tripled in recent years as demand exceeded supply by 300 percent. Supplies were low because of problems in the major producing countries, which are China, Iran, and Afghanistan. Political upheavals in the latter two made them an unreliable source for the fiber. In addition, China began manufacturing its own sweaters, so it exported less of the raw fiber. Demand has increased because cashmere is a warm fiber, desirable in the energy shortage, and suitable for current fashions.

Synthetic fiber. Shipments of synthetic fibers by U.S. producers during the first 8 months of 1980 were 8.7 percent below a year earlier, near the 1978 level. The price of

[6] *Cotton and Wool Situation*, ESCS, USDA, August 1980. (ESCS is now ESS.)

[7] See footnote 6.

Table 3. Percentage change in selected index of consumer prices from September 1979 to September 1980

Consumer Price Index	Percentage change
All items	+12.6
Apparel and upkeep	+7.1
Men's and boys' clothing	+5.1
Men's:	
Suits, sport coats, and jackets	+0.0
Coats and jackets	+0.9
Furnishings and special clothing	+8.2
Shirts	+9.6
Dungarees, jeans, and trousers	+4.5
Boys':	
Coats, jackets, sweaters, and shirts	+7.5
Furnishings	+4.5
Suits, trousers, sport coats, and jackets	+5.7
Women's and girls' clothing	+3.5
Women's:	
Coats and jackets	+0.7
Dresses	−1.1
Separates and sportswear	+4.2
Underwear, nightwear, and hosiery	+6.9
Suits	+7.7
Girls':	
Coats, jackets, dresses, and suits	−1.2
Separates and sportswear	+2.1
Underwear, nightwear, hosiery, and accessories	+7.5
Infants' and toddlers'	+9.9
Other apparel commodities	+16.9
Sewing materials and notions	+10.3
Jewelry and luggage	+19.4
Footwear	+7.7
Men's	+7.4
Boys' and girls'	+11.6
Women's	+5.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, 1979, CPI Detailed Report September 1979; and personal communication with the Bureau of Labor Statistics.

polyester increased by 47 percent between February 1979 and July 1980, compared with a 24-percent increase in the price of cotton during the same period. In 1979, U.S. exports of synthetic fibers rose 52 percent over 1978, whereas imports dropped 47 percent.

Hides and leather. U.S. production of hides in 1980 and 1981 will decrease each year as fewer cattle go to market. This trend, however, is expected to reverse in 1982.

The quantity of leather shipped by U.S. tanners has been declining since 1965. The value of shipments of leather and leather products continues to increase, however, due to price increases in raw cattle hides and other raw materials.

From 1968 to 1978, domestic shoe production dropped 37 percent. *Men's footwear* is expected to drop to 90 million pairs in 1980 from 93 million in 1979 and 102 million in 1978. In contrast, *women's shoes and boots* have been manufactured at a steady rate of about 149 million pairs for each year 1978-80. Production of children's shoes, including athletic shoes, is expected to decrease from 82 million pairs in 1979 to 75 million pairs in 1980.

In the 10-year period 1968-78, imports of shoes increased by 106 percent. Currently, about 52 percent of all shoes sold in the United States are imported. This includes 41 percent of men's footwear, 65 percent of women's

shoes and boots, 45 percent of children's shoes, 33 percent of infants' shoes, and 75 percent of athletic shoes. Although exports of U.S. footwear are increasing, they are only 2 percent of the total quantity and value of domestic shipments.

Outlook for Fiber Finishes

All-cotton durable press. Shirts made from fabrics treated with liquid ammonia, a process patented by Sanforized Co., have been on the market since January 1979. This process, called Sanforset,[8] changes the molecular structure, which preshrinks the fabric and eliminates seam puckering. The Sanforset treatment is reported to improve the fabric's wear and abrasion resistance, while giving it a softer hand. Cotton's comfort and breathability are unaffected. In April 1980, the Van Heusen Co. began selling all-cotton durable press shirts made from fabrics finished with a new resin process. These shirts are said to have similar performance characteristics to those having the Sanforset finish, plus the following advantages: Vat dyes are used, permitting a greater range of colors; shirts, white and colored, can be laundered with liquid chlorine bleach; and the retail price is lower due to a reduction in manufacturing costs. An industry representative predicts all-cotton durable press shirts will be 20 percent of the market by 1982, up from 5 percent in 1980.[9]

Bedsheets made of 100 percent cotton and treated with the Sanforset process are on the market. One sheet manufacturer is using a combination of polyester and cotton fibers to wrap each strand of polyester in cotton during the spinning process. The polyester contributes the wrinkle-free characteristics, and the cotton is soft and pleasant next to the skin.

Comfort stretch. Comfort stretch was widely promoted by Levi Strauss in its Action Slacks. These pants were made from fabric woven of all polyester filament yarns that had been woven wide and heat-set in a relaxed state to provide stretch. Mills responded to the increasing demand for stretch fabrics by adding combinations of filament and spun yarns and blends of synthetic and natural fibers which, in some cases, contained small amounts of Lycra spandex. Lightweight fabrics suitable for shirts and blouses were developed. Fabrics were constructed with two-way stretch. Canvas, sailcloth, oxford cloth, gabardine, denim, and corduroy became available in stretch goods.

The outlook for 1981 is for an expanded use of stretch fabric. Many consumers will find that stretch garments are more comfortable to wear, and the retailer will find stretch garments a feature to promote. Since stretch fabric for casual pants costs only a few cents per yard more than a similar rigid fabric, most popularly priced pants will be made from stretch goods in 1981.

Stain-Less. A process whereby the soil release finish is built into the fiber, rather than added to the fabric, has been used by Donmoor (a boys' knitwear manufacturer) since March 1980. Independent testing laboratories found the finish durable through 50 launderings. This process has not been patented.

Shrink-resistant wool. Japanese spinners claim that a new process involving physical and chemical treatment of wool increases shrink resistance and improves hand and color fastness. In January 1980, this process began to be used commercially. Patent applications have been made in Japan and the United States.

Hydrophilic-enhanced nylon or polyester. Several corporations in the United States and abroad are working on increasing the hydrophilic or moisture absorbent characteristics of nylon and polyester. These corporations are producing a new fiber with a modified nylon or polyester polymer. A patent has been awarded to one American company for hydrophilic nylon with moisture absorption characteristics similar to those of cotton.

Outlook for Government Regulations and Trade Agreements Affecting the Apparel Industry

The Wool Products Labeling Act, amended by Congress on May 5, 1980, and effective

[8] Trade names are used in this paper solely for the purpose of providing specific information. Mention of a trade name does not constitute a guarantee or warranty of the product by the U.S. Department of Agriculture or an endorsement by the Department over other products not mentioned.

[9] Daniel Fitzpatrick, vice president of merchandising of men's dress shirts, Arrow Shirt Company.

July 4, 1980, deletes references to "reprocessed" and "reused" wool and substitutes "recycled." The new label informs the consumer that the fibers were recycled by reducing a previously manufactured product to fibers, which were then carded, spun, woven, and finished in exactly the same way as virgin wool fibers are processed. The consumer can no longer distinguish, however, between wool obtained from a wool product previously used by another consumer (reused) and wool from a product never owned by another consumer (reprocessed).

On September 17, 1980, the United States and China signed a textile agreement that established levels in six product categories and provided for distribution of Chinese goods embargoed in U.S. ports. These quota levels were lower than those established for most other nations. This agreement will last for 3 years, dating retroactively to January 1, 1980. In 1979-80, China purchased 2.2 million bales of U.S. cotton, or double the amount bought by our next two largest customers, Japan and South Korea. China currently ranks as the fifth largest textile exporter.[10]

[10] Ray Shockley, first vice president, American Textile Manufacturers' Institute.

PENSIONS

By Frankie N. Schwenk[1]

A major financial goal of families and individuals is maximum economic well-being over the life cycle. This requires the distribution of income from earnings and assets in a manner that balances income with changing income needs. A retirement financial plan facilitates the building of assets during employment years to provide income for later years. For some families, pensions are an important component of that plan.

Trends in Pension Plans and the Outlook for the Future

About 50 percent of the work force is covered by a pension plan. The half million pension plans in operation cover 30 million persons, three times the number of people covered in 1950.

During the 1940's and 1950's, the number of pension plans in operation and the number of persons covered grew rapidly for several reasons. Although the Social Security Act was passed in 1935, growth of the social security system was slow and individuals turned to pensions for additional security. Recalling depression era experiences of relatives or friends, employees were receptive to the idea of shared saving for retirement. During the tight labor market of the war years, employers offered pension benefits to offset restricted compensation due to wage and price controls. In the 1950's, pension plans became a major issue in collective bargaining. During the 1960's, most of the growth in pension plans was due to increased employment in firms that already had pension plans, rather than the introduction of new plans.

Pension coverage leveled off during the 1970's, and the outlook is for pension coverage to remain at its current level. Several factors account for this leveling off. A high percentage of the most accessible employee groups has been covered (*14*). Further, pension reform legislation enacted in 1974 may constrain new programs. This legislation, the Employee Retirement Income Security Act (ERISA), was designed to improve the financing and operation of employee pension plans. Since ERISA was enacted, however, many small plans have been terminated and the rate of formation has decreased sharply. These actions may be related to increased administrative and disclosure costs that are required for compliance of plans

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with the provisions of ERISA, although the majority of terminations seem to be related to general economic and business conditions. In addition, the increase and indexing of social security benefits in the midseventies have increased the replacement ratio of social security benefits to preretirement earnings, requiring employers and employees to increase their contributions to social security. Finally, high rates of inflation erode pension benefits, whereas the social security program provides automatic cost-of-living adjustments.

Pension coverage could grow if unions continue to push for retirement benefits, if pension coverage becomes mandatory, or if pension plans continue to be afforded favorable tax treatment. However, it does not appear to be a time for pension plan growth, but rather a time for evaluating the equity and role of present plans. At present levels, pension assets are a significant component of the Nation's economy and of the portfolios of many individuals and families.

Pension plans vary widely, with differences in funding, vesting, and benefits. Since employers pay 92 percent of the total contributions to retirement plans, individuals in most plans are not required to contribute to their private pension plan. Plans may be classified as defined contribution or defined benefit. In defined contribution plans, a fixed contribution to an individual's account is made and contributions are invested. Benefits received at retirement are based on the amount of money in the person's account at that time. In defined benefit plans, the amount of benefits an individual will receive upon retirement is determined in advance by a formula that often is based on an employee's length of service and earnings history, with calculations based on either the earnings averaged over the career or final earnings just before retirement.

Families with higher incomes are more likely to have benefits from pension plans than are those with lower incomes. Of wage earners with gross family incomes of $20,000, 70 percent are covered by either a public or private pension plan, or both (*9*). In contrast, 70 percent of wage earners with family incomes of $10,000 or less are not covered.

Women are less likely to participate in a pension plan and less likely to be entitled to benefits than are men. This is because women are less likely to have union status and are more likely to work part-time, be employed in small firms, and fill positions in low paying industries and occupations. When women do receive pensions, the benefits typically are one-half the amount of men's because of the fewer years of plan participation and lower earnings (*12*). These benefits may be eroded seriously by inflation over the retirement period, which is generally longer for women than for men. As spouses of plan participants, women may be left without any pension plan benefits because the husband died before reaching retirement age or because he failed to choose the survivor annuity option at retirement. Moreover, pension plans usually do not cover divorced wives.

A 1979 study of the Bureau of the Census showed:

- The coverage rate was 50 percent for white workers, compared with 46 percent for workers of all other races.
- Almost four out of every five employees represented by a union were covered by a retirement plan, a proportion twice as high as the coverage rate for employees not represented by a union.
- Workers in establishments with 500 or more employees were almost 2½ times as likely to have pension coverage as workers in establishments with fewer than 100 employees.
- Coverage in most occupations was between 50 and 60 percent, with low-paid, high-mobility service, labor, and sales jobs having significantly lower coverage rates (*1*).

Concerns Related to Pensions

The President's Commission on Pension Policy is examining the Nation's retirement, survivor, and disability systems, and is developing recommendations to be reported in February 1981. Problems identifed in the interim report (*9*) include lack of pension coverage for many, inequitable treatment of women, erosion of benefits due to inflation, inadequate incentive for retirement savings, and increased dependence on pay-as-you-go programs. Two concerns of considerable interest are portability of pensions and age of retirement.

Portability. Portability addresses the concern for preserving vested pension rights.[2] When an individual leaves a job, many years may elapse between termination of employment and the age at which pension benefits from that employment begin. A provision allowing the terminating employee to carry the present monetary value of his or her pension to a central clearinghouse fund or to the next job, could help individuals preserve pension benefits and provide an opportunity for growth of the assets.

Portability recommendations cover only those employees who have vested pension rights. ERISA allows three alternative vesting schedules, but all result in at least 50 percent vesting with 10 years of participation and 100 percent with 15 years (*6*).

In 1974, some changes were made by ERISA to facilitate portability. Provisions were made for a tax-free transfer of money from a pension fund to the pension plan of a new employer or to a qualifying IRA (individual retirement account, annuity, or bond). Requirements include a 60-day time limit. The Social Security Administration maintains records of vested individuals who have terminated employment and supplies this information to those who apply for social security benefits.

Despite these changes, mobile workers may still lose some pension benefits. For example:

1. To lessen administrative burdens to the employer, ERISA allows employers to "cash-out"—pay a lump sum to terminating employees that covers their vested benefits. Some employees spend this cash, instead of putting it in an IRA or other retirement plan. Although this allows an individual a choice, it does divert pension funds to nonretirement use. A portable pension fund plan could provide a place to channel "cash-out" amounts, thus preserving the pension (*13*).

2. Vested pension benefits that remain with the employer's plan are frozen as of the time of separation and usually are not available if the individual is disabled or dies before retirement.

3. In an inflationary economy, a worker with four jobs during his or her career receives a smaller total pension than a worker with one job. This is because benefits figured on the final earnings will be less for the first job than for the last job. In other words, although a pension is based on final earnings in each job, it will be based on earnings that are similar to the average earnings over the career rather than on final earnings. The higher inflation is, the greater the penalty will be. For example, at 6 percent annual inflation, a single-job worker would receive almost twice the benefits of a four-job worker with the same salary base (*8*). Although benefits based on final earnings provide implicit indexing for people who work for one employer until retirement (because wages rise with inflation), employers may resist indexing vested benefits for terminated employees. If individuals could transfer the monetary value of their accrued pension credits to the clearinghouse or succeeding employers, the rate of return on accumulated assets might help offset some of the effects of inflation.

Because individuals can use IRA's to provide their own portable fund, a clearinghouse may not be necessary. A clearinghouse would require widespread participation in a transfer system, but employers may be reluctant to accept the administrative costs of calculating and effecting transfers. If required to make large lump-sum transfers, pension plans may have to keep more assets in liquid investments, thus reducing the return on investments and the assets available for benefits.

Choice of retirement age. In 1978, 61 percent of the persons who retired under social security were under 65 years of age, compared with 32 percent in 1965. Currently, 36 percent of the applicants for social security benefits actually retire at 62 (*11*). If expectations were the deciding factor, this trend would continue. In a household survey of 6,100 adults, conducted by the President's Commission on Pension Policy, 47.5 percent indicated that they expect to retire at age 62 or before (*10*).

However, several factors may lead to later retirement, including inflation, increasing longevity, demographic changes, and legislative changes. A major incentive to work longer may be the surge in living costs. Inflation, combined with earlier retirement and a longer lifespan,

[2] "Vested" refers to the right to accrued benefits, even if employment under the plan terminates before retirement. Employee contributions are always fully vested.

can erode seriously the economic well-being of individuals and families. At a 5-percent annual rate of inflation, the value of a fixed pension would drop nearly a quarter in 5 years; at 10 percent, it would drop one-third in 5 years (*3*).

Average life expectancy rose from 47 years in 1900 to 68 years in 1950, leveled off, then increased again in the 1970's (*11*). With increasing longevity, retirement might be set as a percentage of the expected lifespan, rather than at a particular age. A man at 65 today can expect to live 14 years; a woman, 18 years.

Demographic trends toward an older population will result in a change in the worker/dependent ratio. A declining number of workers will support a growing population of retirees. The baby boom generation will begin retiring in 2010. By 2030, the ratio of people 65 and over to the working age population will double (*11*). In 1978, income transfer programs from the working population to the retired population represented 7 percent of the income of the working population. If current average retirement age continues, this share would double to 14 percent of the working population income by the year 2030 (*11*).

To meet the increased need for retirement funding—(1) the working population may accept an increased level of intergenerational transfers to the elderly; (2) there may be more advance funding of benefits where contributions of today's workers are set aside for their future retirement, rather than pay-as-you-go plans where contributions of today's workers pay for benefits to present retirees; and (3) retirement age may be increased.

Some steps have been taken to encourage later retirement:

1. A 1978 amendment to the Age Discrimination in Employment Act made it unlawful to forcibly retire workers under 70 years of age. Although probably less than 10 percent of the people reaching 65 will keep working, the law makes it possible for individuals to elect to do so.

2. In 1982, workers 70 or older will be permitted to earn any amount and still draw their full social security entitlement.

3. In 1982, social security benefits will increase by 3 percent (instead of the present 1 percent) for every year a worker postpones retirement after 65.

If eligibility ages for retirement benefits are to be changed to discourage the present trend of early retirement, a substantial amount of advance warning must be given to allow for retirement planning.

Pensions as a Component of a Retirement Financial Plan

Current consequences of retirement plans. For individuals and families in the early and middle years of the life cycle, retirement plans have current, as well as future, consequences. The choice of financial instruments for retirement planning affects present tax liability. Taxes on many pension benefits do not need to be paid until the worker retires and collects benefits. At that time, the individual usually is at a lower tax bracket than at the time the benefits were earned. Thus, pensions and other tax-deferred plans help equalize tax liabilities over the life cycle. For many workers, a pension is the only available savings plan that has a tax advantage.

Current insurance and savings programs may be affected by components of a retirement plan. For example, pension plan coverage may affect life insurance decisions. Under some plans, pension benefits are lost if an employee dies before retirement, but pension benefits under other plans are paid to the survivors. The amount and nature of pension benefits also may affect savings. If an individual has a variable annuity retirement plan, other savings might be placed where there is a fixed return.

Resources available for current consumption also are affected by the amount and way a family or individual sets aside resources for retirement. Two out of three households save or invest for retirement purposes, thus reducing currently available resources.

The value of current employment is affected by employer-sponsored retirement plans since the total value of labor includes current wages and benefits, as well as future benefits. In 1975, for every $100 of wages and salaries in private industry, $4.73 was contributed to pension plans (*15*).

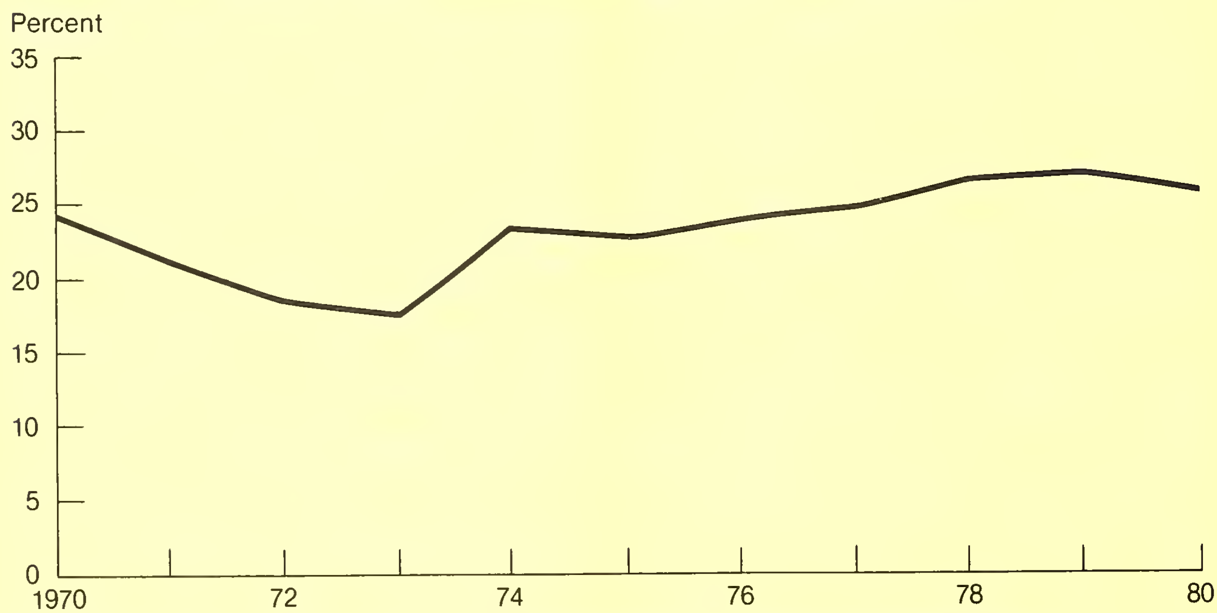
Pensions and savings. Retirement financial plans of families and individuals usually start

with a base of social security that is supplemented with income earned after retirement, personal savings, and private pensions. These components interact in ways that are not entirely clear: Studies of time-series data indicate that social security decreases private savings (*5*, *7*). Other studies, however, show that either the social security system does not have a significant effect on private savings or that analysis of the time-series data does not isolate that effect (*4*). Effects of social security on savings may be offsetting. For example, establishing a somewhat standard retirement age may increase savings in response to expected retirement; expected benefits of social security, however, may decrease private savings.

For some families, pensions represent a substantial portion of their assets. Data in the *Flow of Funds Accounts*, Federal Reserve System (*2*), indicate that pension reserves comprised about 27 percent of all additions to household assets in 1979. The chart shows the contribution of pension reserves to household assets over the last 10 years. Only half the work force is covered by a private pension fund, so pensions for those households represent an even higher percentage of additions to household assets.

Planning for the future. Plans made in the early and middle years of the life cycle affect the time and style of retirement. Half of the work force is *not* covered by pensions so they must give particular attention to retirement income plans. For that half who are covered, understanding the features of their particular pension plan may increase the effectiveness of their retirement financial decisions and may increase the pension benefits received. Rules governing eligibility requirements, vesting, early retirement, disability retirement, and preretirement death benefits vary among plans and are important in determining benefits. Under ERISA, employees are entitled once a year to request from the plan administrator a statement of their vesting and accrued benefit status.

Pension Reserves as a Percent of All Additions to Household Assets



Source: Board of Governors of the Federal Reserve System, Division of Research and Statistics, 1980. Flow of Funds Accounts, 1st Quarter 1980, I 80.

Decisions concerning pensions may be complex because pensions often are tied to a choice of employment and may be difficult to sort out from other fringe benefits. Pension-related decisions, however, may have a direct impact on the retirement portfolio. For example, a person who leaves a job before being at least 50 percent vested may lose pension contributions from the employer. Mobile workers or persons planning to drop out of the labor force and then return could time that decision in a way that would minimize loss of benefits.

There may be specific decisions related to a choice of pension plans from the employer. Some plans offer a choice between variable or fixed annuities and between tax-deferred or nondeferred plans. These decisions are made in the early or middle years but affect the family's financial affairs throughout life.

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FAMILY FINANCIAL PLANNING—RESEARCH

By Colien Hefferan[1]

In a period of rapidly escalating prices and visibly diminishing resources, family financial planning becomes both more difficult and more important. The economic uncertainty that complicates the financial planning process also accentuates its importance. For example, how many families purchasing a home in 1965 anticipated that in 1980 their monthly home utility bills might exceed their mortgage payment? How many couples retiring in 1970 with a "comfortable" monthly annuity of $480 anticipated that estimated living costs for a retired couple would exceed $650 per month in 1978?[2]

These past economic conditions provide an excellent lesson in the value of planning, but how many families will be prepared to apply these lessons to the contingencies of the future? Are we prepared for an 8-percent rate of inflation or a 12-percent rate or a 15-percent rate? A difference of a few percentage points in the rate of inflation makes substantial differences in projections of future costs. Assuming an 8-percent inflation rate, for instance, the projected annual living cost for a retired couple is $43,000 in the year 2000; at 12 percent inflation, the projection is $95,000. At 8 percent inflation, the projected direct cost of raising a child born in 1979 at age 18 is $134,000;[3] at 15 percent it is $282,000. When the range of economic possibilities is this broad, how can families effectively plan their economic futures? The purpose of this paper is to review research related to family financial planning and to analyze how this research might be used to develop and implement programs to help families with their financial planning in uncertain times.

Both the depth and breadth of interest in family financial planning substantially increased in the seventies. This interest is evidenced by the introduction and successful expansion of magazines and newsletters on financial management and planning, a significant increase in the number of column inches devoted to these topics in general magazines and newspapers, an expansion of radio and television coverage related to family financial planning, growth in the "profession" of financial counseling and guidance, and increased demands on the Cooperative Extension Service and other educational systems for programs related to family financial planning.

There are two basic approaches to family financial planning. The first focuses on the maintenance and enhancement of family economic well-being, whereas the second involves the remediation of family financial problems.

Many groups and organizations assist families seeking guidance in the area of financial planning. For example, the 7,000 members of the International Association of Financial Planners (IAFP) are involved in family financial planning from the prespective of enhancement. IAFP members include persons with backgrounds in insurance, investments, banking, real estate, and related professions. About 25 percent of these members are "Certified Financial Planners" and have been trained through the College for Financial Planners in Denver. IAFP members and related professionals annually reach an estimated 50,000 middle-income and upper-income individuals and families.

Many organizations and professionals also are involved in family financial planning directed at the remediation of financial problems. The National Foundation for Credit Counseling estimates that more than 200,000 families are reached each year through free or low-cost services provided by 203 local, nonprofit

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[1] Economist, Family Economics Research Group, Science and Education Administration, U.S. Department of Agriculture.

[2] Based on the intermediate cost level budget for a retired couple calculated for autumn 1978 by the Bureau of Labor Statistics. For more information, see reference *12*.

[3] Based on estimates for the urban North Central region at the moderate cost level. For more information, see reference 7.

Consumer Credit Counseling Services.[4] Similar numbers of households are provided with services through social service agencies, churches, credit unions, labor unions, and fraternal organizations.

The Cooperative Extension Service annually reaches thousands of families at all economic levels with educational programs designed to both maintain and enhance economic well-being and remedy financial problems through effective family financial planning. Through its information network, the Cooperative Extension Service reaches many other individuals and families with knowledge and strategies related to family financial planning.

Research

Programs to help families plan their finances are developed on the basis of two types of research and knowledge. The first type concerns the *content* of family financial affairs and includes such topics as forms of saving and investing, principles of insurance, sources of and regulations governing consumer credit, and housing selection. The second type concerns the *principles* of planning and includes research related to the process of planning, that is, research that identifies the motivation of planning and the skills necessary to effect a financial plan. Other research in this category is related to the characteristics of persons who are effective planners. This research identifies the life cycle and family characteristics, as well as socioeconomic and social psychological variables that are associated with planning behavior. The following discussion focuses on research and knowledge related to the principles of family financial planning.

The concept of financial planning is distinct from the more general notion of financial decisionmaking. Family financial decisionmaking generally is defined as the conscious direction of behavior at one point in time toward the attainment of predetermined goals (*9*). Family financial planning is defined as the determination of these goals and the arrangement of resources to reach these goals while maximizing well-being over time. Planning is a dynamic process that includes the concept of time—time as a resource to be exchanged for another resource as well as the continuum on which decisions are made. Financial planning implies recognition that decisions made at one point along the planning continuum affect the resources, opportunities, and choices of the future.

Process. Research related to the process of family financial planning has confirmed: (1) the rationality of behavior and (2) the resilience of habits. Research suggesting that family financial planning is a reasoned process generally has been designed to test a specific behavioral hypothesis of theory. For example, research conducted by Kinsey and Lane (*10*) to assess the relationship of debt to perceived household welfare was based on an adaptation of general investment theory. These authors contended that consumers plan their saving and debt based on their perceived rate of return from these activities and their valuation of the present time period relative to the future. This application of investment theory incorporates two important components of family financial planning, recognition of the interrelatedness of decisions and the role of time in the planning process. Kinsey and Lane found that although debt reduces the net worth of the family, it can contribute to the household's overall sense of well-being, if it is used to rearrange financial resources over time to match life cycle patterns of needs and goals to life cycle patterns of income.

In several classic studies, Bymers (*2*), Bymers and Rollins (*4*), and Bymers and Galenson (*3*) also analyzed the role of investment and debt in family financial management as a way to understand the process of financial planning. They identified the time frames in which decisions are made and developed a system for classifying household expenditures and accounts. In this system, expenditures are divided into groups according to whether the expenditure is for remedial purposes (such as debt repayment), current needs, or future plans. This system allows the researcher to identify the types of families who are actively engaged in financial planning and to study the relationship of planning to the overall budget process. It also allows families to see how their expendi-

[4] Personal communication with Mary Quinn, National Foundation for Credit Counseling, Washington, D.C.

ture behavior reflects commitment to the financial planning process.

Families direct their planning behavior on the basis of family financial goals. Several financial goals often are cited as motivation for financial planning. These include homeownership, education of children, and adequate retirement income. Paynter (*11*) analyzed the relationship of the strength of goal commitment in the area of housing to the types of behavior in which families would be willing to engage to attain their goals. She reported that strong commitment to housing goals was related to the willingness to increase labor force activities of family members, reduce expenditures for such luxury items as meals away from home and entertainment, and reduce expenditures for such intermittent necessities as dental care.

The resilience of attitudes and behavior related to family financial planning has been demonstrated by use of data from the Panel Study of Income Dynamics. Duncan and Hill (*5*) report that attitudes and behaviors set at one period of time are slow to change in response to change in the broad economic climate or the specific economic conditions confronting the family.

Recent research regarding the process of planning has attempted to distinguish several "styles" of planning behavior, especially styles that denote ability to adapt to change. Beard and Firebaugh (*1*) developed a measure to assess orientation to morphostatic planning behavior; that is, behavior characterized by difficulty in adjusting to change, and morphogenic planning behavior, which is behavior characterized by ease of adjustment to change. They reported several factors that distinguish morphostatic and morphogenic planning behavior. Morphostatic planning behavior is characterized by orientation to current needs, inflexibility regarding standards and sequencing of plans, and strong adherence to externally imposed rules. In contrast, morphogenic planning behavior is characterized by receptivity to new demands, flexibility, broad participation by all family members in the planning process, and foresight regarding the consequences of current behavior. This research is especially useful in designing programs to help families with the process of financial planning.

An individual's basic orientation toward the future may influence the way in which he or she values the process of planning. The table on page 17 presents a framework described by Holman (*8*) for identifying the dimensions of attitudes about the future and labeling characteristic groups of these attitudes. In this classification system, "producers" are characterized as seeing a single image of the future that is a direct outcome of the present and the past. Change is not valued by this group because it may upset the predictable and uncontrollable flow of events. This group would not find much of value in the planning process. "Participants" also see only one image of the future, but unlike the "producers", they see the future as different from the past. In this framework, "participants" see themselves as influencing the course of events that lead toward the future. This group would be viewed as good candidates for financial planning. "Prospectors" see several future scenarios, but do not perceive themselves as controlling these alternatives. Persons in this group probably would be oriented toward financial planning so that they would be prepared for whatever might occur.

The findings from studies related to the process of financial planning have several implications for program development. First, since planning is a reasoned process that is directed at the attainment of specific goals, family financial planning programs should include strong emphasis on goal identification and clarification. Many families may be ineffective planners because they simply do not have goals.

Second, research indicates the importance of developing programs that establish positive planning behaviors early in the life cycle. Although many circumstances, usually crises, act to temporarily alter our established patterns of behavior, positive, long-term, planning behavior is most effectively initiated in the early stages of the family life cycle.

Third, research provides evidence that there are distinctive styles of planning behavior. Families that have developed one style of planning behavior may not benefit from programs that attempt to implement another style. For example, the findings of Beard and Firebaugh (*1*) suggest that programs to help families deal with economic change would need

Orientations toward the future[1]

Ways of thinking about the future	Futurizing style		
	Producer	Participant	Prospector
Is the future predictable?	Yes	Yes	No
Does the individual have control over the future?	No	Yes	No
What is the relationship of the future and the present?	Identical or very similar	Linear but positive slope	Discontinuous
What is the nature of causality?	Antecedent	Prospective	Concurrent
What is the rate of change in the future?	Slow or none	Constant	Accelerating
Is change valued?	No	Yes	Yes
Is change disruptive?	Yes	No	No
How many images of the future are held?	One	One	Many

[1] Adapted from Holman, Rebecca H. The imagination of the future: A hidden concept in the study of consumer behavior. Association for Consumer Research, Annual Meeting 10/16-19/1980.

to be designed differently for families with morphogenic planning behaviors than for families with morphostatic behaviors. Other factors that characterize style of planning behavior, such as attitudes about risk, might also influence program development and acceptance.

Persons. Three sets of factors appear to characterize families who are likely to engage in financial planning: Degree of commitment to goals (as discussed in the *Process* section); stage of the family life cycle; and socioeconomic characteristics. Often, these factors are interrelated.

In a study of families in debt, many of whom characterized themselves as ineffective planners, Wright (*13*) described families with severe credit problems as likely to have the husband as the major breadwinner and unlikely to have the wife employed (25 percent employment rate among wives), likely to have a breadwinner with a high school diploma or slightly less education, likely to be home renters rather than owners, and likely to have many creditors.

Bymers and Galenson (*3*) noted strong relationships among types of investment and level of income, education, age, life cycle stage, and family composition. For example, high income was associated with investment in education of children and other family members; the early stage of the family life cycle was associated with investment in durables and personal insurance; and an older family head was associated with contributions to organizations.

Clearly, level of income is an important determinant of family financial planning behavior. Without adequate income to meet current needs, families are handicapped in planning for the future. Nevertheless, low income families in the early stages of the family life cycle frequently exhibit planning behavior suggesting that expected income, rather than current income, is related to planning. Duncan and Newman (*6*) report that the family life cycle stage is among the most important determinants of planning related to housing goals.

New research is being initiated by the Family Economics Research Group to analyze orientation to family financial planning including

styles and effectiveness of planning among families at various stages of the life cycle. This research will be useful in identifying the stages at which families begin planning for critical economic events such as retirement. It will also identify the strategies that appear most effective in the attainment of family financial goals.

Research findings regarding the persons who are inclined to be effective financial planners suggest a recurring problem for program planners—those most likely to need planning skills are the ones least likely to seek them. Consequently, for families wishing to enhance their economic well-being, programs might be designed so that the responsibility for participation rests solely with the client. These programs might be delivered by use of a group educational format. For families who need financial planning skills to remedy a specific problem, programs may require joint responsibility on the part of the participant and the program planner, and possibly referral from a third party. For example, an individual "counseling" program or small group session may be effective for teaching skills to resolve a specific problem.

Trends

One of the primary purposes of the annual Food and Agricultural Outlook Conference is to identify the economic, social, and technical trends that will be useful in predicting the future. Several trends emerge for research related to family financial planning.

First is the trend toward research that focuses on the broad spectrum of resources available to families over the life cycle. For instance there is evidence of renewed research interest in the relationship of the use of time within the household to the attainment of economic goals. Currently, the Family Economics Research Group is supporting projects at the University of Wisconsin, the University of Missouri, and the Ohio State University to develop new research techniques that can be applied to the analysis of household production. This type of research will help us to understand how household production relates to the household's ability to save or adjust to changing economic conditions.

Similarly, this trend toward analyzing resources over time is seen in new research and program efforts concerning family financial planning over the life cycle. Work has been done to identify the planning tasks associated with each stage of the life cycle and to determine the information and skills needed to successfully complete the tasks.

The second emerging research trend related to family financial planning is the analysis of life cycle costs. For effective planning, households need to estimate the total cost of ownership and operation of household durables. This is especially important in light of increasing energy costs. Methodologies are being developed to incorporate initial cost of purchase and life cycle cost of operation and maintenance into one overall estimate of cost that can be used by households to make financial decisions.

Third is the trend toward analysis of resource networks developed by families to attain their financial goals. These networks can be seen in the barter and exchange systems that have developed in some communities—systems that the Internal Revenue Service refers to as the "subterranean economy"—and in the increased interest in systems for the intrafamily transfer of income and wealth.

The fourth trend that is likely to be reflected in research related to family financial planning is the increasing use of computers and other electronic information systems in financial decision making and transactions. In several states, including Indiana, Michigan, and South Carolina, extension specialists have developed programs in which electronic technology provides individualized education to the public. These or similar extension programs currently are in use in all States with computer capability. Research should be conducted for rating the effectiveness of these tools in facilitating the financial planning process, as well as the acceptance and use of these planning tools by families.

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THE ECONOMY IN 1981

The information contained in this article is condensed or abstracted from talks presented at the annual Agricultural Outlook Conference in November 1980, at Washington, D.C.

The Outlook in General

By Stephen M. Goldfeld
Member of the Council of Economic Advisers

The year 1980 started with policymakers strongly concerned with containing the effects of the 1979 oil shock and preventing this shock from setting off a double-digit inflationary wage and price spiral. That this concern was warranted is evidenced by the sharp jump in the rate of inflation in the first 3 months of the year, when increases in both the consumer and producer price indexes spurted into the 18 to 20 percent range. At the same time, wages began to accelerate, after having increased modestly during most of 1979— running at about 8½ percent in the face of an inflation rate of over 13 percent. Inflationary expectations worsened and interest rates skyrocketed. The reaction of some consumers was to buy ahead, but this only added to inflationary pressures.

In response to these developments, the Administration and the Federal Reserve Board (the Fed) took a number of actions including the imposition of selective credit controls. Collectively, these actions served to contain the inflationary spiral, bringing inflation sharply down. Interest rates plummeted—the prime rate dropped from 20 percent to 11 percent, while the Treasury bill rate fell from a peak of nearly 16 percent to just over 6 percent.

At the same time, the economy entered a recession. The unemployment rate, which had been in the neighborhood of 6 percent through March 1980, jumped over the short space of 2 months to the 7.75 percent level. With weakness concentrated in autos and housing, real GNP (Gross National Product) in the second quarter fell at a record 9.5 percent annual rate.

Around the middle of the year most forecasts, including the Adminstration's, were projecting another substantial real GNP decline in the third quarter, to be followed by a further decline in the fourth quarter. Most private forecasters had the unemployment rate rising to the 8.75 to 9 percent range by yearend. Once again, as it had done in 1979, the economy proved more resilient than observers anticipated.

As the summer unfolded, various signs of recovery began appearing. After a number of months of decline, there was a pickup in housing starts and retail sales in June, in auto sales in July, and in employment and industrial production in August. For the third quarter as a whole, real GNP advanced at a 1 percent annual rate—hardly a buoyant recovery, but a far cry from the 4 to 5 percent decline forecast at the start of the quarter. Many observers have suggested that the current recession has run its course. If hindsight validates this view, the 1980 recession will prove to be the briefest on record.

The relative brevity of the recession is due to a variety of factors. A few of these deserve emphasis because they have direct implications for the 1981 outlook. One factor in making the recession brief is the apparent absence of a sharp inventory cycle. Although inventory-sales ratios are relatively high, the absolute levels of stocks in many industries are reported to be at operating minimuns and there are few reports of business perceptions of heavy inventories. This reflects heightened business caution over inventory policy in the last year and one-half or so. Some have suggested that this caution stems from the fact that forecasters started proclaiming a recession well back in 1979. Whatever the reason, the absence of a sharp inventory cycle will tend to moderate growth in the coming quarters, contributing to a recovery that will be more modest than those typically achieved following a recession.

A second factor was the rapidity with which interest rates fell from their peaks of early spring 1980. Unquestionably, this was instrumental in the prompt turnabout in housing, and helped autos as well. A major reason for the rapid movements in interest rates was the adoption of a new set of operating procedures by the Fed. More particularly, throughout 1980, the Fed pursued a reserves-oriented strategy aimed at achieving better control over the growth of the monetary aggregates. As a consequence, compared with previous years, in

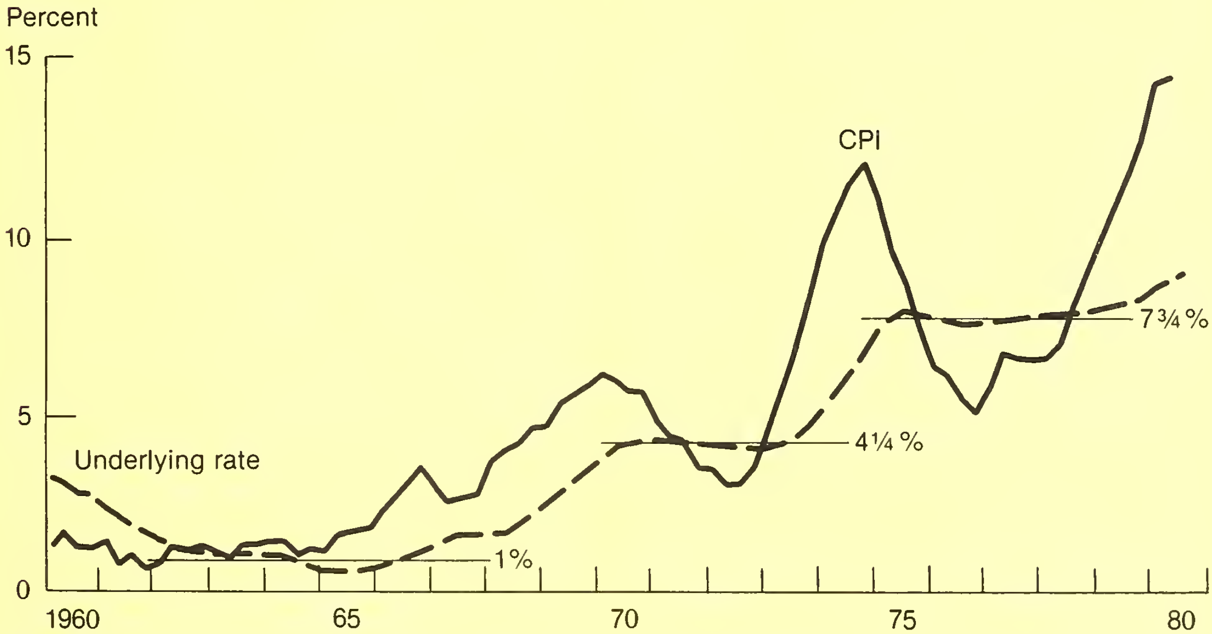
1980 the Fed was willing to witness substantially greater fluctuations in interest rates. As recent events have indicated, however, this new strategy has led to financial conditions that are historically unusual for the early stages of recovery; that is, the runup in interest rates, which has seen short rates rise some 700 basis points from their June 1980 lows and long rates up some 300 basis points. This unprecedented pattern suggests a second reason for a sluggish recovery.

Aside from causes of the recession's brevity, there is also one alleged consequence of that brevity that deserves comment. In particular, today one often hears that the recession was *too* short, or put another way, that the patient stopped taking its anti-inflationary medicine before the medicine had a chance to work. This view is based on a misreading of both recent events and history. First, in comparison to "what might have been," the intertwined effects of economic policy and the recession did serve to break the potentially dangerous inflationary spiral of early 1980. Second, the record of past recessions does not suggest that recessionary medicine has been particularly effective treatment for the nation's underlying inflation ills.

A sense of this can be gleaned from figure 1, which plots the actual and "underlying" or the "core" inflation rates over three inflationary episodes. The first, the Vietnam episode, saw excess demand drive up the underlying rate, but the 1970-71 recession did little to moderate it. The second episode, involving a worldwide crop shortage and the first oil shock, lifted the underlying rate further. Despite the 1974-75 recession—the deepest in 40 years—the underlying rate of inflation again proved stubbornly sticky. With the 1979 oil shock, we experienced a further ratchet upwards and once again the ensuing recession appears to have made little dent in the underlying rate.

All this indicates that the recessionary medicine may be an overrated cure of inflation. However, this discussion is not meant to indi-

The Underlying Rate of Inflation



The "Underlying Rate" used here is DRI's "Core Rate." Source: Data Resources, Inc.

Figure 1

cate a sanguine or fatalistic attitude towards the inflationary process, or to deny the basic proposition that we are coming out of the 1980 recession with an unacceptably high rate of inflation. Furthermore, as elaborated below, it is this rate of inflation, when coupled with Federal Reserve determination in the pursuit of monetary aggregates, that may well dictate the nature of the recovery.

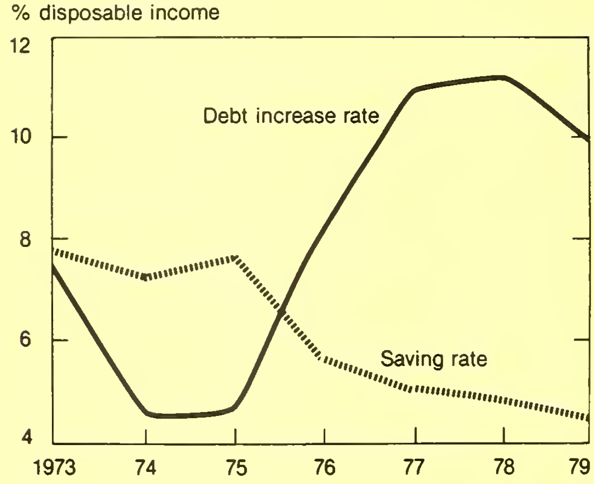
Both the recession and the recovery from the recession are likely to be regarded as historical freaks: The recession itself being both unusually brief and unusually sharp; the recovery being unprecedentedly sluggish. In the previous six postwar recessions, the pace of economic activity during the early stages of a recovery has been quite brisk. For example, for the four quarters after the trough of a recession, real GNP typically has advanced by 7.5 percent. Most recent private forecasts suggest that this time around the corresponding growth of real GNP is likely to be in the 2.5 to 3 percent range.

Consumer spending over the course of 1981 is likely to be considerably less buoyant than in a typical recovery. To a large extent, this reflects the effect of fiscal and oil drag on consumer incomes. Among other things, the sources of drag include the following: a scheduled social security tax increase; inflation-induced tax bracket creep; and an increase of windfall profits tax revenues as world oil prices increase and as the decontrol program permits larger quantities of oil to be sold at world market prices. Higher food prices also are likely to serve as an additional source of drag on consumer incomes. Another factor in the consumer picture is that the personal saving rate is currently reported to be quite low by historical standards. This suggests that there is little room for a burst of consumer spending fueled by a substantial decline in the saving rate (see fig. 2). Such a decline was a factor in the early stages of the recovery from the 1974-75 recession. On balance, the consumer is likely to be faced with a number of factors contributing to a sluggish growth in disposable income and is not likely to be a major source of independent strength in the recovery.

In the investment sector, it already was noted that the likely absence of a major inventory cycle will tend to contribute to a moderation of the recovery. Business capital spending

Chart 118

Debt and Saving of Households



Source: Federal Reserve Board.

Figure 2

also is unlikely to be a major source of strength in the near term. As is typical during a recession, business spending plans during 1980 were scaled down several times. With low capacity utilization rates and depressed profits, despite the advent of a recovery, real business investment in plant and equipment is unlikely to change much in the near term. However, if, as seems likely, the prospective tax action provides a significant investment stimulus, capital spending is likely to pick up at the end of 1981 and into 1982.

The remaining component of investment, residential construction, is something of a question mark. Currently, most private forecasters are projecting housing starts in the fourth quarter of 1981 in the 1.6 to 1.7 million unit range. Given the rapid recovery of housing starts from the May 1980 low of 900,000 units to the September level of over 1.5 million units, and given strongly favorable demographic factors, these housing start projections seem quite reasonable. They, of course, imply that residential construction would be a major source of gains in real GNP over the next several quarters. The major uncertainty with this view is the likely impact of financial conditions on the housing market. The recent runup in interest rates has spawned anecdotal evidence of problems in mortgage markets, but it is too early to tell for sure whether significant problems are likely to arise.

Of the remaining components of aggregate demand, neither State and local spending nor net exports is likely to be much of an engine for growth. On balance, then, it seems fairly clear that the prospects are for quite a modest economic recovery over the course of 1981. The pattern of activity is likely to be a bit sluggish in the first few quarters of the year, but will pick up after midyear. Indeed, at the end of the year, the economy should be moving at a more healthy clip and this should make for a somewhat improved situation in 1982.

In recent years, considerable attention has been focused on the notion of the underlying rate of inflation. Indeed, figure 1 is one version of this concept—based on a relatively sophisticated model. Of course, there are other simpler ways to roughly gage the underlying rate. For such purposes, one might look at standard unit labor costs or various deflators excluding food and energy. Taken as a whole, these various measures suggest that inflation currently shows an underlying momentum of about 9 percent. The actual inflation rate obviously varies a good deal more than the underlying rate, although this behavior is considerably more marked for the Consumer Price Index than for the GNP implicit deflator.[1] Nevertheless, at least for the deflator, an inflation performance roughly in line with the underlying rate seems a reasonable bet. However, for the longer term, ways must be found to reduce the underlying rate from its current unacceptably high level.

Obviously, the outlook for the economy critically depends on the precise stance of monetary and fiscal policy. As has been well established, the Fed has embarked on a policy motiviated by a longer term concern with bringing down inflation. As previously noted, under its new operating procedures, the Fed has shifted to a regime that emphasizes achieving targets for the monetary aggregates. For 1981, the target range for M-1B[2] is 3.5 to 6 percent (before special adjustment for NOW accounts). When this target was first unveiled, the Fed and others emphasized the potential problem of the consistency of the targets with a nominal GNP forecast of the sort described above. Achieving both forecast and targets clearly requires a substantial increase in monetary velocity. This in turn is usually associated with a rise in interest rates, or, as in the recovery from the 1974-75 recession, fortuitous shift in the behavior of the public's demand for money. Absent the latter, the question simply is whether the rise in interest rates necessary to elicit the needed increase in velocity is consistent with the underlying forecast.

Since these concerns were first expressed in midsummer, the economy has proved stronger than originally forecast. As a result, over the fall months of 1980, the economy may have had a premature taste of the collision between the targets and the recovery. Further gyrations in interest rates were evident in the last few weeks. On the whole, from the present vantage point, it is not clear how serious the potential conflict between monetary targets and the recovery is likely to be. Without doubt, however, it is one of the important elements of uncertainty in outlook.

As for the fiscal policy in 1981, in the absence of any tax changes, the ratio of tax receipts to GNP is likely to rise—somewhere between 1.25 and 1.50 percentage points. Coupled with Administration restraint in Federal outlays, in the absence of any new policy actions, the 1981 budget would represent a significant tightening in fiscal policy. Undoubtedly, Congressional action will reduce taxes in 1981. Nevertheless, an appropriately sized tax cut might only partially moderate the restrictive stance of fiscal policy. This result is dictated by the concern with inflation and the need to avoid putting excessive pressure on capital markets in the light of current monetary policy.

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[1] See "Two measures of inflation: The Consumer Price Index and the Personal Consumption Expenditure Implicit Price Deflator," *Family Economics Review* Winter 1981, pp. 13-18.

[2] The Federal Reserve System defines M1-B to include: (1) Demand deposits at all commercial banks other than those due to domestic banks, the U.S. Government, foreign banks, and official institutions, less cash items in the process of collection and Federal Reserve float; (2) currency outside the Treasury, Federal Reserve banks, and the vaults of commercial banks; (3) negotiable order of withdrawal and automated transfer service accounts at banks and thrift institutions; (4) credit union share draft accounts; and (5) demand deposits at mutual savings banks.

The Outlook for Consumer Credit

By Robert B. Evans
Senior vice president and general counsel
National Consumer Finance Association

The outlook for consumer credit for the 1980's is dependent on control of the Federal budget and money supply. If both can be managed, then the supply and cost of consumer credit will stabilize. If uncontrolled, consumer credit will become more expensive, and perhaps more scarce.

When the Federal Government borrows money, the Fed may monetize a portion of the debt. Put another way, the U.S. Treasury prints money in the form of bonds and notes; then the Fed purchases them. This results in an increase in the money supply. A certain amount of money needs to be printed to meet the growth of the economy. However, when the Fed is asked to do two things—accommodate a large Federal budget deficit and a growing economy—it must either create an excessive amount of money, thereby fueling inflation, or stick to moderate growth (6 to 9 percent in M1-B[3]), and accept the risks of volatile and increasingly large swings in interest rates. The Fed has chosen the latter course.

There are signs of slight relief from the pressure on the Fed. Retail sales, consumer credit, and housing starts are falling off, although in October, industrial production was up 1.6 percent. Soon the economy will slow; we will reach a peak in interest rates, and a gradual decline can then be expected.

As long as the inflation rate is persistently high and the Fed tries to control money supply rather than interest rates, the cost of borrowing money will be volatile. For example, earlier this year, the Fed targeted the growth of M1-B at an annual rate of 6 to 9 percent. With credit controls and the credit crunch in the spring, M1-B grew at an annual rate of 3 to 4 percent. From August to November 1980, with an easing of credit, M1-B grew at an annual rate of 18 percent. The Fed then clamped down, and interest rates for all types of credit, including that used by consumers, immediately and significantly increased. In belated fashion, the Fed finally raised the discount rate to banks. Banks have responded by increasing their prime rates, the rates of interest charged to their best corporate customers. The interest charged consumers for credit is somewhat higher than the prime rate. Consumer credit will continue to have a series of expansions and contractions until inflation is brought under control, and the money markets stabilize.

The impact of inflation on savings rates has affected the cost of credit. In the spring of 1980, many consumers withdrew their money from credit unions, savings and loans, and bank accounts to purchase money market funds. This is because the mandated maximum interest rate on savings accounts is 5.25 percent for banks and 5.5 percent for savings and loans, which was much lower than the rate of inflation and the rates offered on market instruments. When consumers lend money, they hope to maintain the real value of the money they set aside, as well as earn a little profit. When inflation reduces the value of the principal, and tax liability reduces the profits, consumers seek better savings mechanisms. In the past several years, discretionary funds have been withdrawn from savings institutions to a far greater degree than ever before in our history. It has created a crisis in the savings market, one that was addressed in 1980 with the passage of the Depository Institutions Deregulation and the Monetary Control Act (see box). Over the next 6 years, the interest rates on savings accounts in all financial institutions will be gradually deregulated so that they closely correspond to the market. Now, consumers will be able to receive more interest on money in their savings accounts than previous legislation allowed. Eventually, the variety of alternative devices, such as money market certificates, will not be so prominent. This new legislation will create consumer banks from savings and loan associations, commercial banks, credit unions, and other financial depository institutions. They will become neighborhood national finance service centers, offering a number of consumer financial services such as bill paying and investment advice. Actually, they will perform all of the financial services consumers have wanted in the past but have been unable to find in any one financial institution. In addition, investment brokerage firms are moving in the same direction.

[3] See footnote 2, page 23.

DEPOSITORY INSTITUTIONS DEREGULATION AND MONETARY CONTROL ACT OF 1980

The Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221), signed into law March 31, 1980, is a broad-ranging law containing nine titles, five of which are to be known as separate acts themselves. These include the Monetary Control Act of 1980, the Depository Institutions Deregulation Act of 1980, the Consumer Checking Account Equity Act of 1980, the Truth in Lending Simplification and Reform Act, and the Financial Regulation Simplification Act of 1980. The other four titles of the law concern the powers of thrift institutions, amendments in the national banking laws, foreign control of U.S. financial institutions, and State usury laws.

Under the provisions of the Monetary Control Act of 1980, Fed deposit reserve requirements will be uniformly imposed for all depository institutions on transaction deposits and nonpersonal time deposits. These reserve requirements will be phased in over an 8-year period for non-Fed member institutions. Member institutions will have their reserve requirements phased down over a 4-year period. This and other provisions of the act are designed to improve the ability of the Fed to effectively conduct monetary policy.

The Depository Institutions Deregulation Act of 1980 has two components: one relates to interest rate ceilings on savings accounts and the other to interest-bearing, third-party payment (checking) accounts. Under the act, all authority for interest rate ceilings on all types of deposits will end in 6 years. A Deregulation Committee, with membership from the Fed, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, U.S. Department of the Treasury, and Comptroller of the Currency, will administer the phased deregulation to assure maintenance of stability in financial institutions. The law also provides that banks and thrift institutions throughout the Nation will be able to offer third-party payment, interest-bearing accounts in the form of negotiable order of withdrawal (NOW) accounts or other systems.

The Checking Account Equity Act of 1980 makes permanent the authority for share draft accounts of credit unions, automatic transfer accounts at commercial banks, and remote service units at Federal savings and loans. In addition, the law allows for change in the usury ceiling at Federal credit unions from 12 to 15 percent.

The Truth in Lending Simplification and Reform Act changes some of the disclosure and enforcement provisions of the Truth in Lending Law passed in 1968. Under this act, compliance for creditors is simplified, while the consumer protection intent of the original legislation is maintained.

The Financial Regulation Simplification Act of 1980 requires Federal financial institution regulatory agencies to insure that their regulations are needed and open to scrutiny and debate by the public and interested third parties.

Other titles of P.L. 96-221 provide several types of overrides on State usury laws. For example, State usury ceilings on mortgage rates are permanently preempted unless affected States act within 3 years to reinstate them.

Currently, the economy is undergoing the worst and by far the largest amount of bankruptcies ever experienced. Consumer bankruptcy touches many more lives than before. It seems to be cutting across people of lesser means, as well as people with six-figure incomes. Obviously, this is a very perplexing problem and Congress soon may address this issue despite the fact that the process of bankruptcy reform that developed our current system took 10 years.[4]

[4] See "Bankruptcy reform", *Family Economics Review*, Summer/Fall 1980, pp. 37-38.

The Outlook for Housing

By Robert J. Sheehan
Chief economist
National Association of Home Builders

The outlook for housing in 1981 is made by the National Association of Home Builders (NAHB) based on a number of assumptions about the economy—personal income growth, the unemployment rate, inflation, personal savings, and interest rates.

Personal income growth is expected to increase less than 9 percent. Not since 1974 has there been a nominal rate of growth of less than the double-digit level. Also, the forecast assumes a continuing decline in real income until the middle of 1981 and then a movement toward growth in the second half. Further, unemployment is expected to increase to the 8 percent level by the first quarter of 1981 and decline to the current level of 7.6 percent by the end of 1981.

Inflation assumptions show a drop into the single-digit range and a move closer to the general underlying rate of inflation, which is in the 9 to 10 percent range. This is a sharp drop from the high double-digit inflation experienced in the fourth quarter of 1980, which resulted from the sharp increase in mortgage rates. However, this forecast ignores the potential problem in oil prices and supplies arising in 1981 from the Iraq-Iran War. In addition, a major deregulation of domestic oil prices, which will increase prices, will start to take effect in 1981. Hopefully, the weak economic growth and its resulting limitation on demand for energy will moderate the impact in the short run of both domestic price increases and those of OPEC. However, food prices are another threat to keep inflation in the double-digit range.

One distressing factor in the general economy is the low level of personal savings in the third quarter of 1980, when only 4.6 percent of disposable personal income was saved. This represents a continuance of a trend of lower savings rates almost every year since 1973. In 1973, the savings rate was 7.8 percent. Fortunately, the current level is decidedly above the 3.5 percent low of the first quarter of 1980. The low level of savings in a recession year is another unfortunate erosive effect of sustained high inflation that destroys the incentive to forego consumption. Little basis is left to support a strong general economic recovery, and it certainly does not help to increase the pool of potential homebuyers who can qualify for mortgages at the expected level of interest rates.

The most difficult assumptions to predict are interest rates. They reflect the extreme volatility of our economy. Assumptions by the NAHB show that the prime may drop as low as 10.5 percent from the current level of over 16 percent. The mortgage interest rate that evolves from these assumptions is in the 12.5 to 13.5 percent range. These interest rate assumptions are based on the constricted growth rate in the economy. They also assume a more stable economic environment, an adjustment of the financial markets to the dramatic changes in monetary policy and regulations that have been occurring and will continue to occur over the next several years as the banking industry is deregulated.

In general, a rather positive outlook for interest rates in a slowly growing economy has been presented. If the economy grows more rapidly or if a tax cut is imposed without corresponding cuts in the Federal budget, certainly personal income will rise and unemployment drop, but inflation and interest rates will increase. It can be expected that if economic growth speeds up in the short run, it will have an unsettling impact and push up interest rates faster. This will give our housing starts forecast a downside risk.

Housing recovery will be delayed until early 1981. Forecasts for 1981 now estimate housing starts to be 1.45 to 1.50 million units, about 22 percent over the 1.22 million anticipated for 1980.

Of special note in the forecast mix is the continuation of the little noted intensification of the multifamily sector. There is a forecast of a 35 percent share for multifamily units in 1981, the highest level since 1973 and well above the 23 percent low point of 1975. The increase in the multifamily share can be traced to the resurgence and spreading of condominium activity into more areas of the country.

Housing costs and demographics play a role in increased condominium activity. Rapidly rising housing costs are forcing more households to seek smaller units to provide affordable housing. There are two related demo-

graphic trends that are promoting increased condominium activity. The first trend is a result of changes in the capital gains tax laws affecting the treatment of profit from the sale of a primary residence by a household with a head over 55 years of age. Beginning in 1979, these households were permitted to exempt up to $100,000 of profit on the sale of their primary residence on a one-time basis from income taxation. This has given such households an opportunity for the first time to trade down to a smaller unit. Hence, a condominium in a multifamily structure is an attractive alternative to many of these households, which are now "empty nesters" (childless).

The second trend is the growth of single-person, single-parent households. Both create strong demand in the multifamily market for condominium and rental units. During the 1970's, single-person households increased 706,000 per year, and one-parent households increased by 79 percent. In 1970, 11 percent of all families with children at home were headed by one parent. By 1979, the proportion had increased to 19 percent.

Certainly, as the recovery from the housing recession of 1980 matures, the multifamily share of starts will stabilize or may even decline, but demographics and affordability will promote a significant share of multifamily units, especially condominiums.

The Outlook for Food

By Paul C. Westcott
Agricultural economist
Economics and Statistics Service

Food prices are one of the most visible aspects of inflation. Two reasons are often cited for this. First, food is a basic necessity making expenditures on food a required living cost. Second, because of its perishability, food is purchased frequently by consumers, usually more than once a week.

At this time, retail food prices in 1981 are expected to average 10 to 15 percent higher than in 1980. Conditions that would push the 1981 food price increase into the upper end of the forecast range include winter weather that damages the citrus crop and reduces livestock marketings, a poor grain harvest in the fall of 1981, another surge in the general inflation rate that would impact on food marketing costs, and an extremely poor global sugar crop.

The retail food price forecast disaggregated by the major food products is given in the table on page 28. In 1981, the major source of food price inflation will come from rises in meat, poultry, and egg prices. Producer losses in the first half of 1980 resulting from low hog prices will lead to declines in pork production in 1981. With only slight increases in beef and broiler production, 1981 per capita meat and poultry supplies will be 2 to 4 percent below the level in 1980, with the current assessment showing an 18 percent price increase for meat and poultry. In addition, increased demand for eggs, as consumers substitute them for meats and poultry, along with a slight decline in production, will push retail egg prices up about 17 percent over 1980's relatively low prices.

In 1981, prices for dairy products are expected to rise slightly faster than in 1980, with the price support program and rising marketing costs again being the major causes.

Fruit and vegetable prices are one of the major areas of uncertainty in the forecast because of their sensitivity to weather developments. Citrus production is especially dependent on growing conditions in Florida and the Southwest. Currently, fruit prices in 1981 are expected to rise only moderately because of record production levels. Vegetable prices are expected to rise faster in 1981 than in 1980. In response to the relatively low farm level prices in the last few years, potato acreage in the fall of 1980 was reduced to the lowest level in 15 years. The resulting decline in supplies will keep retail potato prices relatively high, at least until next fall's harvest.

Following 1980's relatively small increases, retail prices for fats and oils are expected to rise more in 1981. Although carryover stocks from the 1979 crop rose, reduced acreage and yields have led to lower production of the major oilseeds (soybeans, peanuts, cottonseed, flaxseed, and sunflowers). Additionally, lard production will likely fall in 1981 because of reduced hog production.

Prices for sugar and sweets are likely to show another substantial rise in 1981 with the size of the increase depending upon 1980-81 global sugar production. A great deal of uncertainty exists because of the limited information availabile about crops in the U.S.S.R. and Cuba,

and because of uncertainties about the extent of potential Brazilian use of sugar cane in ethanol production. Nonetheless, world sugar production is expected to be below consumption for the second consecutive year.

Prices for cereals and bakery products and nonalcoholic beverages may rise more than the general inflation rate in 1981. To a large degree, these prices will be affected by food marketing costs. However, the soft drink component of nonalcoholic beverages and prices for some bakery products will be affected by the higher sugar prices. In addition, higher grain prices will be passed through to retail cereal and bakery product prices.

Retail food price changes, 1978-81[1]

Food category	1978	1979	Forecast 1980	Forecast 1981
		Percent change		
All food	10.0	10.9	8.7	12.2
Food away from home	9.0	11.2	10.0	10.4
Food at home	10.5	10.8	8.1	13.0
Meats	18.7	17.0	3.5	17.9
Beef and veal	22.9	27.3	6.4	13.5
Pork	12.9	1.5	-2.6	27.6
Other meats	17.8	14.7	4.1	17.5
Poultry	10.3	5.0	4.1	18.0
Fish and seafood	9.5	9.8	9.2	9.6
Eggs	-5.5	9.5	-3.1	16.9
Dairy products	6.7	11.6	10.2	10.7
Fats and oils	9.5	8.0	6.7	11.0
Fruits and vegetables	11.1	8.0	7.0	8.0
Sugar and sweets	12.2	7.8	22.4	21.5
Cereals and bakery products	8.9	10.1	11.9	10.9
Nonalcoholic beverages	5.7	5.0	10.8	12.0
Other prepared foods	8.0	10.1	10.9	10.3

[1] Based on the Consumer Price Indexes, All Urban Consumers.

Sources: Historical data from the Bureau of Labor Statistics; forecast data estimated by the U.S. Department of Agriculture.

HOUSING AND URBAN DEVELOPMENT ABSTRACTS

Aids to Understanding the U.S. Department of Housing and Urban Development

U.S. Department of Housing and Urban Development
Office of Administration

This annotated bibliography lists 95 publications under the headings of: (1) Basic congressional and presidential actions establishing major programs; (2) histories and chronologies; (3) influential reports; and (4) keeping current with HUD. The publication is intended to serve as a pathfinder for those interested in what laws govern HUD, how the Department grew, and how to keep aware of current actions. Single copies of *Aids to Understanding the U.S. Department of Housing and Urban Development*, HUD-396-1-A(5), are available free from the HUD Library, 451-7th Street, SW., Room 8141, Washington, D.C. 20410.

Measuring Restrictive Rental Practices Affecting Families with Children: A National Survey

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

This study, conducted for the Office of Policy Development and Research, HUD, examines the extent and nature of policies that limit the ability of families with children to find suitable rental housing. Based on telephone interview data collected from a national sample of tenants and managers, the experiences of families with children, as well as the attitudes and preferences of tenants and housing managers, were studied. Factors associated with differences in policies, such as characteristics of the housing and residents, were examined. The findings suggest that exclusionary practices against children exist under a variety of circumstances, and that such practices have increased in recent years. Single copies of *Measuring Restrictive Rental Practices Affecting Families with Children: A National Survey*, HUD-PDR-603, are available free from Publications Service Center, HUD, Room B-258, 451-7th Street, SW., Washington, D.C. 20410.

1978 Statistical Yearbook

U.S. Department of Housing and Urban Development
Office of Organization and Management Information

This yearbook brings together comprehensive and detailed data on the program and financial operations of HUD and statistical information related to housing and urban activities. The first 10 sections present HUD program status and activity data. An eleventh section presents data published by other Government departments and some private organizations. This data covers such topics as population size; household and family characteristics; housing occupancy, vacancy, production, and sales; construction expenditures and costs; and mortgage finance. Single copies of the *1978 Statistical Yearbook*, HUD-338-7-UD, are available free from Publications Service Center, HUD, Room B-258, 451-7th Street, SW., Washington, D.C. 20410.

The Conversion of Rental Housing to Condominiums and Cooperatives

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

This study presents a national picture of the extent, causes, and impact of condominium and cooperative conversions. By using consistent definitions for all jurisdictions, the study analyzes the significance of the volume and location of present and projected conversions. Supply and demand factors contributing to conversions and community, tenant, and owner impacts are also evaluated. The conversion process is described, as are Federal, State, and local programs for and regulations on conversion. Single copies of *The Conversion of Rental Housing to Condominiums and Cooperatives*, HUD-PDR-554, two appendixes, and an executive summary are available free from HUD USER, P.O. Box 280, Germantown, Md. 20767.

Consumer Guide for Home Energy Conservation

U.S. Department of Housing and Urban Development
Office of Neighborhoods, Voluntary Associations, and Consumer Protection

This bulletin includes a variety of useful information for consumers interested in energy conservation. A checklist is included to help identify energy-saving actions along with estimated costs of materials and estimated yearly energy savings. Services provided by utility companies to encourage residential customers to conserve energy are discussed, as is the U.S. Department of Energy Weatherization Assistance Program for Low-Income Families. Eligibility and guidelines and contact points for this program are included. Solar energy information, including programs and contact offices, is presented, followed by information on energy conservation counseling training and assistance. A state-by-state listing of contact points for State and Federal programs that can provide assistance to community groups interested in energy projects is included. Finally, tax credits for home energy conservation are discussed including information on claiming these credits. Single copies of *Consumer Guide for Home Energy Conservation*, HUD-599-NVACP, are available free from Publications Service Center, HUD, Room B-258, 451-7th Street, SW., Washington, D.C. 20410.

How Restrictive Rental Practices Affect Families with Children

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

This HUD sponsored report is based on personal interviews with families who have experienced housing problems because they have children. The study documents how this housing problem affects the lives of families seeking rental housing. Single copies of *How Restrictive Rental Practices Affect Families with Children*, HUD-PDR-592, are available free from HUD USER, P.O. Box 280, Germantown, Md. 20767.

Characteristics of New Housing: 1979

U.S. Department of Commerce
Bureau of the Census

This annual joint publication of the U.S. Department of Commerce, Bureau of the Census and HUD provides statistics on selected financial and physical characteristics of new housing. The report includes chapters on the characteristics of single-family and multi-family housing completed during 1979, single-family houses sold during 1979, and contractor-built houses started.

According to the report, an estimated 1,875,000 new privately owned housing units were completed in 1979; 1,301,000 were single-unit structures. Of these single-unit dwellings, 60 percent had central air-conditioning, 74 percent had two or more bathrooms, 64 percent had three bedrooms, and 23 percent had four or more bedrooms. In addition, 51 percent were heated by electricity and 39 percent by gas. Further, 28 percent were from 1,200 to 1,599 square feet in size, 23 percent from 1,600 to 1,999 square feet, 15 percent from 2,000 to 2,399 square feet, and 15 percent were 2,400 square feet or more.

The average sales price of new one-family houses sold in 1979 was $71,800 compared with $62,500 in 1978; the median was $62,900 in 1979, and $55,700 in 1978. The average price per square foot of houses sold in 1979 reporting such a figure was $32.40, compared with $28.50 in 1978. The price index of houses sold in the United States rose from 182.1 in 1978 to 207.3 in 1979 (1972=100). Single copies of *Characteristics of New Housing: 1979*, Construction Reports C25-79-13, are available for $2.25 from Data User Division, Customer Service Branch (Publications), Bureau of the Census, Washington, D.C. 20233.

1980 President's National Urban Policy Report

U.S. Department of Housing and Urban Development
Office of Community Planning and Development

This report represents a progress statement on the comprehensive national urban policy, "A new partnership to conserve America's communities," that was announced in March

1978. Trends that have affected and continue to affect communities and their residents are analyzed and additions and refinements to the original policy are presented.

The 1978 Urban Policy was the product of an effort by Federal, State, and local officials, public interest groups, private sector leaders, and urban policy analysts—directed by the Urban and Regional Policy Group (the secretaries of five cabinet agencies)—to analyze urban problems and develop policy objectives. In the 1978 Urban Policy, 9 key policies led to 19 legislative initiatives, 4 executive orders, and extensive administrative actions including program changes, pilot programs, and interagency agreements. A description and status of these actions are included in the introduction.

An overview examines urban population distribution and measures community need and distress. A section on the central city looks at the central city economy, labor market, housing, neighborhoods, and fiscal conditions. A similar focus is provided for suburban and nonmetropolitan communities. A four-chapter section on a framework for urban policy and a program for future action complete the report. Finally, a bibliography is included. Single copies of the *1980 President's National Urban Policy Report*, HUD-583-1-CPD, and an executive summary, HUD-583-CPD, are available free from Publications Center, HUD, Room B-258, 451-7th Street, SW., Washington, D.C. 20410.

Housing Our Families

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Written in response to the International Year of the Child and the White House Conference on Families, this publication brings together much of the existing HUD information on the housing status of families with children. Chapters include an overview of family housing and an analysis of the adequacy and affordability of housing to answer the question, "How well are we housed?" An examination of the demand for housing includes trends in family and household formation, income, and family composition. In addition, recent housing supply trends are reviewed. Research on exclusionary practices affecting families with children and the legal status of such policies are described. Finally, HUD programs are reviewed in terms of how well they serve families, and policy and research options for the future are discussed. A bibliography is included. Single copies of *Housing Our Families* are available free from HUD USER, P.O. Box 280, Germantown, Md. 20767.

Bibliography on Urban Policies and Housing Programs—A Background List

U.S. Department of Housing and Urban Development
Office of International Affairs

Books, government reports, and periodical articles dealing with housing and community development policies and programs are cited and briefly abstracted. Single copies of *Bibliography on Urban Policies and Housing Programs—A Background List*, HUD-A-531, are available free from the HUD Library, 451-7th Street, SW., Room 8141, Washington, D.C. 20410.

Neighborhoods: A Self-Help Sampler

U.S. Department of Housing and Urban Development
Office of Neighborhoods, Voluntary Associations, and Consumer Protection

This book describes what people across the country have done to revitalize their communities. The major part presents interviews with members of self-help groups who describe what they have done, why, and how. Following each narrative is a step-by-step section that can help readers replicate the same kind of project in their communities. Also included are housing rehabilitation projects, economic development programs, arts and culture centers, neighborhood improvement projects, and social services centers. Appendixes include mini-factsheets on neighborhood-oriented programs of the Federal Government, a resource directory of organizations that can provide technical assistance, and an annotated bibliography. Single copies of *Neighborhoods: A Self-Help Sampler*, HUD-536-(a)-NVACP, are available free from Publications Service Center, HUD, Room B-258, 451-7th Street, SW., Washington, D.C. 20410.

MONEY INCOME AND POVERTY STATUS OF FAMILIES AND PERSONS IN THE UNITED STATES: 1979

In 1979, the median income of all families in the United States was $19,680, according to results of the Current Population Survey conducted in March 1980 by the U.S. Bureau of the Census. The 1979 median family income was 12 percent higher than the 1978 median (see table 1). However, after adjusting for the 11.3 percent increase in prices between 1978 and 1979,[1] there was no significant change in real median family income.

For certain types of families, however, there were significant increases in real median income during 1979. Examples include married-couple families with a wife in the labor force, who increased their real median income by 2 percent, and families with a female householder, no husband present, who increased their real median income 5 percent.

There was no significant difference in the change in real income between 1978 and 1979 experienced by white, black, and Spanish-origin families. However, families with a householder who completed 4 or more years of college and families whose householder was employed as a professional, technical, and kindred worker (many of whom are college educated) experienced decreases in real median income of 3 to 4 percent.

Income levels in the 1970's were affected by recession, high-level inflation, and changes in family structure. Between March 1970 and March 1980, there was a substantial increase in the proportion of families maintained by a female householder with no husband present (from 11 to 15 percent). Additionally, there was an increase from 28 to 30 percent in the proportion of families maintained by younger persons (under 35 years of age). The changes in family structure have exerted a downward influence on overall median income, since families maintained by women and younger persons tend to have lower incomes.

In 1979, about 25.2 million persons were below the poverty level, constituting 11.6 percent of the U.S. population. The size of the poverty population did not change significantly from the 1978 level, although one group, persons 65 years old and over, did significantly increase from 3.2 million to 3.6 million. This is the first increase in the elderly poor since the 1974-75 recession years (see table 2). The poverty threshold for a nonfarm family of four was $7,412 in 1979.

The size of the poverty population fluctuated throughout the 1970's. Declines in the number of poor during the early part of the decade were offset by increases during the recession years of 1974 and 1975. There has been no significant change in either the number or percent of persons below the poverty level since the 1975-76 period.

Some of the lack of progress against poverty during the 1970's can be attributed to the problems of recession and high rates of inflation, as well as changes in family composition. In particular, the increase in the proportion of families with a female householder with no husband present has greatly affected the poverty population, because the poverty rate for such families is very high compared with other families. In 1979, for example, 30 percent of families maintained by women with no husband present were poor compared with only 5 percent of all married-couple families.

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[1] The percentage increase in prices between 1978 and 1979 is computed by dividing the annual average Consumer Price Index (CPI) for 1979 by the annual average value of the CPI for 1978.

Source: U.S. Department of Commerce, Bureau of the Census, 1980, Money income and poverty status of families and persons in the United States: 1979 (advance report), *Current Population Reports*, Consumer Income, Series P-60, No. 125.

Table 1. Median family income in 1950 to 1979 in current and constant dollars

Year	Median family income: In current dollars	Median family income: In 1979 dollars
	Dollars	
1979	19,684	19,684
1978	17,640	19,626
1977	16,009	19,176
1976	14,958	19,073
1975	13,719	18,502
1970	9,865	18,444
1960	5,620	13,774
1950	3,319	10,008

Source: U.S. Department of Commerce, Bureau of the Census, 1980, Money income and poverty status of families and persons in the United States: 1979 (advance report), *Current Population Reports*, Consumer Income, Series P-60, No. 125.

Table 2. Persons and families below the poverty level: 1978 and 1979

[Numbers in thousands, as of March of the following year]

Selected characteristics	Below poverty level		Poverty rate	
	1979	1978	1979	1978
All persons	25,214	24,497	11.6	11.4
White	16,688	16,259	8.9	8.7
Black	7,840	7,625	30.9	30.6
Spanish origin[1]	2,671	2,607	21.6	21.6
Under 65 years	21,630	21,264	11.1	11.0
65 years and over	*3,584	3,233	*15.1	13.9
In metropolitan areas	15,612	15,090	10.6	10.4
In central cities	9,421	9,285	15.6	15.4
Outside central cities	6,191	5,805	7.1	6.8
Outside metropolitan areas	9,602	9,407	13.7	13.5
All families	5,292	5,280	9.1	9.1
Married-couple families	2,552	2,474	5.3	5.2
Male householder, no wife present	172	152	10.1	9.2
Female householder, no husband present	2,568	2,654	30.1	31.4

[1] Persons of Spanish origin may be of any race.

Source: U.S. Department of Commerce, Bureau of the Census, 1980, Money income and poverty status of families and persons in the United States: 1979 (advance report), *Current Population Reports*, Consumer Income, Series P-60, No. 125.

Note: An asterisk (*) preceding the estimate indicates statistically significant change at the 95 percent level.

WOMEN SOCIAL SECURITY BENEFICIARIES AGED 62 AND OLDER

Women's participation in the labor force has substantially increased over the past half century. In 1930, 10 million women were in the labor force, representing 24 percent of all working age women and 22 percent of the total work force. By 1979, the number had more than quadrupled. With the participation rate at 51 percent, women workers represented 41 percent of the total work force.

Generally, when a woman reaches age 62 she may become entitled to social security benefits as a retired or disabled worker based on her own earnings record, as a wife or widow based on her husband's earnings record or as a dependent surviving parent based on her child's earnings record. Some women are entitled simultaneously to a retired- or disabled-worker benefit and to a second payment from a wife's, widow's, or parent's benefit, which may be a larger amount. Under dual entitlement, the woman receives the retired- or disabled-worker benefit plus the difference between that benefit and the amount of the wife's, widow's, or parent's benefit. She cannot receive both the retired- or disabled-worker benefit and the full amount of the dependent or survivor benefit.

A result of the increased labor force participation of women has been a substantial increase in the number and proportion of women who are entitled to benefits based on their own earnings records. From 1960 to 1979, the number of women receiving benefits based on their own earnings record increased 213 percent, whereas the number of women receiving benefits as dependents and survivors increased only 85 percent. Although the number of women who have worked long enough in covered employment to qualify for benefits based on their own earnings records has grown, often these benefits are lower than the benefits they would receive as dependents and survivors.

Social security benefit amounts are based on the worker's primary insurance amount (PIA). The PIA is related to the worker's earnings in covered employment, averaged over a period of time. The full PIA is payable to a retired worker at age 65 or to a disabled worker at any age. A widow may receive the full PIA and a wife up to 50 percent.

For retired women workers the PIA levels are considerably lower than those for retired men workers. At the end of 1979, the average PIA for women retired workers was $247.80, compared with $344.50 for men (see table).

These differences in the PIA reflect the lower earnings of women and their more sporadic participation in the labor force. Data from a 1972 study of the lifetime covered earnings of retired workers entitled to benefits show that 69 percent of the women, compared with 35 percent of the men, had lifetime covered earnings of less than $40,000.[1]

[1] Barbara A. Lingg, 1977, Lifetime covered earnings and quarters of coverage of retired and disabled workers, 1972, *Social Security Bulletin* 40(10):3-16, U.S. Department of Health, Education, and Welfare, Social Security Administration.

Source: U.S. Department of Health and Human Services, Social Security Administration, 1980, Women social security beneficiaries aged 62 and older, 1960-79, News and Brief Reports, *Social Security Bulletin* 43(7):28-31.

Beneficiaries aged 62 and over, by type of benefit in current payment status and sex, December 31, 1979

Type of benefit and sex[1]	Average: Primary insurance amount (PIA)	Average: Monthly benefit amount
	Dollars	
Retired workers and dependents:		
Retired workers	299.76	294.27
Men	344.50	326.75
Women	247.80	256.54
Wives	349.59	151.80
Husbands	244.04	116.01
Disabled workers and dependents:		
Disabled workers	325.98	324.84
Men	361.05	359.66
Women	256.36	255.72
Wives	387.55	109.80
Husbands	289.18	84.12
Survivors of deceased workers:		
Aged		
Widows	296.33	270.68
Widowers	248.58	212.36
Disabled		
Widows	312.05	191.64
Widowers	286.27	168.34
Widowed		
Mothers	309.73	223.33
Fathers	223.30	137.97
Parents		
Mothers	295.02	239.89
Fathers	292.55	214.65

[1] Excludes special age 72 beneficiaries and adults receiving benefits because of childhood disability.

Source: U.S. Department of Health and Human Services, Social Security Administration, 1980, Women social security beneficiaries aged 62 and older, 1960-79, News and Brief Reports, *Social Security Bulletin* 43(7):28-31.

CHARGES AND SOURCES OF PAYMENT FOR DENTAL VISITS

It is generally known that most dental care is paid for out-of-pocket by patients or their families. Less well known are differences in charges according to population characteristics and the extent of third-party payments from private health insurance or government programs. The National Medical Care Expense Survey provides the most comprehensive statistical picture to date of how health services, including dental services, are used and paid for in the United States. During the period between January 1, 1977, and March 31, 1977, the coverage charge for a dental visit was $31.71.[1] Of this average charge, the family paid $24.42, private health insurance paid $4.12, and public sources paid the remaining $3.17. The average charge for dental visits was higher in the West ($38.42) than in the South ($29.99) and the North Central region ($28.68). The largest proportion of visit charges paid by the family and the lowest proportion paid by private health insurance were found in the South.

[1] A dental visit is defined as any reported visit to a dentist, dental surgeon, oral surgeon, orthodontist, other dental specialist, dental hygienist, dental technician, or any other person for dental care.

A combination of sources paid for 10 percent of dental visits, with 90 percent of all visits paid by one source. That one source was the family in 75 percent of all dental visits. Both private health insurance and Medicaid paid under 10 percent, with other public sources—such as the Veterans Administration—paying under 5 percent of all dental visits.

The average proportion of the charge paid by the family increased with age. On the average, large proportions were paid by the family for visits of persons 45 to 64 years of age and those 65 or older. The latter group accounted for the highest proportion of dental charges paid out-of-pocket among all other age, color, or education groups examined.

Source: Rossiter, Louis F., and Walter R. Lawson. 1980. *Charges and Sources of Payment for Dental Visits With Separate Charges,* Data Preview 2, NCHSR National Health Care Expenditures Study, HHS Pub. No. (PHS) 80-3275, U.S. Department of Health and Human Services, National Center for Health Services Research.

SOME NEW USDA PUBLICATIONS

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The following are for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402:

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- 1980 HANDBOOK OF AGRICULTURAL CHARTS. AH 574. October 1980. $4.50.

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- THE SODIUM CONTENT OF YOUR FOOD. G 233. August 1980.
- ESTENSION PROGRAMS IN HOME ECONOMICS. PA 1272. August 1980.

From Economics and Statistics Service, Publications Unit, Room 0054, South Building, Washington, D.C. 20250:

- DOMESTIC FOOD PROGRAMS: AN OVERVIEW. ESCS 81. August 1980.
- The EDUCATION OF NONMETRO BLACKS. RDRR 21. July 1980.

From Food and Nutrition Service, Information Division, Washington, D.C. 20250:

- OUTSIDE-SCHOOL-HOURS CARE CENTER GUIDE. FNS 217. September 1980.
- CHILD CARE FOOD PROGRAM MANAGEMENT MANUAL FOR INSTITUTIONS. PA 1265. September 1980.

From Food Safety and Quality Service, Information Division, Room 1078-S, Washington, D.C. 20250:

- FEDERAL AND STATE STANDARDS FOR THE COMPOSITION OF MILK PRODUCTS (AND CERTAIN NON-MILKFAT PRODUCTS) AS OF JANUARY 1, 1980. AH 51. Revised September 1980.

County Extension Staff: When ordering publications use Extension Publications Shipping Order Form ES-91A and follow instructions from your State Publications Distribution Officer.

Cost of food at home estimated for food plans at 4 cost levels, December 1980, U.S. average[1]

Sex-age groups	Cost for 1 week				Cost for 1 month			
	Thrifty plan[2]	Low-cost plan	Moderate-cost plan	Liberal plan	Thrifty plan[2]	Low-cost plan	Moderate-cost plan	Liberal plan
FAMILIES								
Family of 2:[3]								
20-54 years	$32.10	$41.60	$52.00	$62.30	$139.20	$180.20	$225.60	$269.90
55 years and over	28.80	37.10	45.90	54.60	125.00	160.60	198.70	236.80
Family of 4:								
Couple, 20-54 years and children—								
1-2 and 3-5 years	45.50	58.20	72.60	86.70	197.10	252.50	314.50	375.90
6-8 and 9-11 years	54.90	70.40	88.10	105.40	237.70	305.00	381.90	456.60
INDIVIDUALS[4]								
Child:								
7 months to 1 year	6.50	7.90	9.60	11.30	28.20	34.10	41.70	49.10
1-2 years	7.40	9.30	11.50	13.60	31.90	40.40	49.70	58.90
3-5 years	8.90	11.10	13.80	16.50	38.70	48.30	59.70	71.60
6-8 years	11.40	14.50	18.10	21.70	49.30	62.80	78.50	93.80
9-11 years	14.30	18.10	22.70	27.10	61.90	78.40	98.30	117.40
Male:								
12-14 years	15.20	19.20	24.10	28.70	65.90	83.40	104.20	124.50
15-19 years	16.70	21.30	26.60	31.90	72.30	92.10	115.20	138.10
20-54 years	16.10	20.90	26.30	31.60	69.70	90.50	114.10	137.00
55 years and over	14.30	18.40	22.90	27.40	62.10	79.90	99.20	118.90
Female:								
12-19 years	13.50	17.20	21.20	25.30	58.60	74.40	92.00	109.50
20-54 years	13.10	16.90	21.00	25.00	56.80	73.30	91.00	108.40
55 years and over	11.90	15.30	18.80	22.20	51.50	66.10	81.40	96.40
Pregnant	16.40	20.90	25.70	30.50	71.30	90.60	111.20	132.00
Nursing	17.50	22.20	27.50	32.70	75.70	96.10	119.20	141.50

[1] Assumes that food for all meals and snacks is purchased at the store and prepared at home. Estimates for each plan were computed from quantities of foods published in the Winter 1976 (thrifty plan) and Winter 1975 (low-cost, moderate-cost, and liberal plans) issues of *Family Economics Review*. The costs of the food plans were first estimated using prices paid in 1965-66 by households from USDA's Household Food Consumption Survey with food costs at 4 selected levels. USDA updates these survey prices to estimate the current costs for the food plans using information from the Bureau of Labor Statistics: "Estimated Retail Food Prices by Cities" from 1965-66 to 1977 and "CPI Detailed Report," tables 3 and 9, after 1977.

[2] Coupon allotment in the Food Stamp Program based on this food plan.

[3] 10 percent added for family size adjustment. See footnote 4.

[4] The costs given are for individuals in 4-person families. For individuals in other size families, the following adjustments are suggested: 1-person—add 20 percent; 2-person—add 10 percent; 3-person—add 5 percent; 5- or 6-person—subtract 5 percent; 7- or more-person—subtract 10 percent.

CONSUMER PRICES

Consumer Price Index for all urban consumers

(1967 = 100)

Group	Dec. 1980	Nov. 1980	Oct. 1980	Dec. 1979
All items	258.4	256.2	253.9	229.9
Food	266.4	264.5	262.4	241.7
Food at home	263.9	262.1	260.0	238.7
Food away from home	277.7	275.3	273.1	253.4
Housing	276.9	273.8	271.1	243.6
Shelter	298.5	294.7	290.4	259.4
Rent	199.6	198.3	197.1	182.9
Homeownership	334.2	329.4	323.8	286.9
Fuel and other utilities	289.9	285.7	287.6	255.1
Fuel oil, coal, and bottled gas	585.3	567 0	558.7	488.0
Gas (piped) and electricity	313.9	310.5	317.1	270.8
Household furnishings and operation	211.6	211.0	210.1	195.8
Apparel and upkeep	183.9	184.8	183.9	172.2
Men's and boys' apparel	174.3	174.8	173.9	165.4
Women's and girls' apparel	157.4	159.9	159.7	154.6
Footwear	196.6	196.5	196.1	184.3
Transportation	261.1	259.0	256.1	227.7
Private	259.4	257 4	254.5	227.5
Public	280.1	277.0	273.6	223.0
Medical care	275.8	274.5	272.8	250.7
Entertainment	212.0	211.2	210.9	193.4
Other goods and services	224.6	222.8	221.5	204.0
Personal care	220.9	219.0	217.8	203.0

Source: U.S. Department of Labor, Bureau of Labor Statistics.

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